Explicating consumer segmentation and brand positioning in the Islamic financial services industry

A Malaysian perspective

Rusnah Muhamad
Department of Accountancy, University of Malaya, Kuala Lumpur, Malaysia, and
Sharifah Alwi
College of Business, Arts and Social Sciences, Brunel University London, Uxbridge, London, UK

Abstract

Purpose – The purpose of this paper is to discuss how the current research on the Islamic financial services industry attempts to classify its consumers and provide a fresh and critical insight into the retail Islamic banking market segmentation to harness and enhance understanding, as well as provide a guideline for a better segmentation to bank marketers.

Design/methodology/approach – This study is conceptual in nature. Based on Qur’anic verses and previous literature, the authors aim to propose an applicable model of market segmentation for the retail Islamic banking market in Malaysia. Consumer segmentation in the conventional financial service industry is analysed, and prior studies on the selection criteria of Islamic banks are evaluated.

Findings – In moving forward, taking cue from the classification of people in classical doctrinal and historical literature and the initial exploratory study conducted from the managerial perspective, the authors propose five cluster groups of consumers for the retail Islamic banking market in Malaysia, namely, religious conviction, religious and economic rationality, economic rationality, ethical observant and economic rationality and ethical observant. A discussion linking consumer segmentation to the branding in the retail Islamic banking market is discussed.

Research limitations/implications – The five cluster groups of consumers for the retail Islamic banking market in Malaysia proposed in this study pave the way for embarking on promising and relevant future research, which is needed to substantiate and enrich the academic understanding and managerial practice of linking market segmentation and brand positioning for Islamic banking market in Malaysia. Future research should focus on verifying the five proposed segments by conducting empirical studies on a larger scale among the retail banking consumers in Malaysia and globally.

Practical implications – The study provides an initial bases or dimensions of consumers of the retail Islamic banking market in Malaysia. The proposed consumers segments are useful in guiding the management of Islamic bank in Malaysia in making decisions relating to the promotion strategy as well as product and brand positioning strategy.

Originality/value – For both academia and the Islamic banking industry, this study provides useful knowledge in strategically using market segmentation to position Islamic banking products and services in Malaysia and the global market.

Keywords Marketing, Cross-cultural management

Paper type Conceptual paper

The authors would like to acknowledge the financial support provided by University Malaya via Equitable Society Research Cluster (ESRC) research grant RP007C-13SBC.
1. Introduction

The Islamic financial services industry (IFSI) is the fastest-growing sector worldwide (Hearn et al., 2012) with the global Islamic financial assets being estimated as being US $2 trillion in 2014 (Grewal et al., 2015). The industry’s assets have grown from US$150 billion in the mid-1990s to approximately US$1.9 trillion as at the first half of 2014, achieving a compound annual growth rate (CAGR) of 16.94 per cent during the period 2009-2013 (Grewal et al., 2015). According to Nazim et al. (2013), Bahrain and six rapid growth markets – Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey – will be the driving factors behind the next big wave in Islamic finance. IFSI is generally defined by the concept of interest-free financing, which is governed by shariah law (i.e. a principle that governs the economic, ethical, social and religious aspects of Islamic society) (Iqbal, 1997).

Since the economic crisis in 1997, the IFSI has also been considered to be an alternative finance option to conventional financial services (CFS) (Muhamad et al., 2012; Quinn, 2008), and the industry has since developed into a global phenomenon, which is both highly dynamic and growing rapidly, and has experienced worldwide acceptance (Rammal and Zurbruegg, 2007). As a result, the IFSI has a globally diverse clientele that is attracting growing interest from global players who are playing increasingly major roles (Aslam, 2006). For example, most well-known global players, such as Citigroup, HSBC and Lloyds TSB, now offer Islamic financial products and services (Hearn et al., 2012). Islamic banking is the earliest and most established segment of this industry serving 38 million consumers globally (Nazim et al., 2013). The global Islamic banking assets with commercial banks were estimated to be US$1.7 trillion in 2013, suggesting an annual growth of 17.6 per cent over the previous four years (Nazim et al., 2013). According to Grewal et al. (2015), the Islamic banking sector continues to dominate the global portfolio of Islamic financial assets, accounting for an estimated 79.8 per cent share as at the first half of 2014. The notion of a halal economy, inclusive growth and differentiation through responsible banking are cited as the main strategies for Islamic banks to capture the global markets (Nazim et al., 2013).

Nevertheless, it should be noted that Islamic finance markets are far from being homogenous – consumer attitudes, regulations and profitability vary significantly across markets (Nazim et al., 2013) – which imposes a considerable challenge to marketers in effectively strategizing the marketing plan for Islamic financial products and services. A major challenge for Islamic financial services (IFS) providers is thus to adjust the marketing propositions, operating models, systems, tools and processes to fully understand and capitalise the available market opportunities. One way to address this major challenge is through the market segmentation of the IFSI (Mowali and Abdulsalam, 2012; Hearn et al., 2012). Properly segmenting the market and effectively conveying the messages according to the needs of each segment would open up the potential and provide the opportunity to reach the untapped market. Market segmentation, therefore, aids marketers in terms of product positioning and designing an effective marketing communication strategy (Rammal and Zurbruegg, 2007).

The diverse clientele in this largely untapped market suggests that there are various groups of potential consumers with differing purchasing motives. For example, both Hearn et al. (2012) and Muhamad et al. (2012) found that consumers of the IFSI are not necessarily limited to Muslims but also include non-Muslims. The non-Muslims are particularly attracted to the concept of equal sharing of profit and loss between investors and banks, and the ethical dimension that is connected to the IFSI (Dusuki and Abdullah, 2007; Hearn et al., 2012; Muhamad et al., 2012).
In particular, through an empirical study from the managerial perspective, Muhamad et al. (2012) initially found that four different segments – religious conviction; religious conviction and economic rationality; ethical observance; and economic rationality – represent the consumers in the IFSI, which are considered to be universal (ranges from Muslims to non-Muslims). Interestingly, satisfying Muslim consumers does not necessarily depend on their religious belief alone (i.e. religious conviction) but also the economic perspective (lower cost of financing, innovative banking features and service quality), which is represented by religious conviction and economic rationality (Dusuki and Abdullah, 2007; Muhamad et al., 2012, 2015).

Thus, according to this initial finding, the purchase decision of Muslim consumers in this industry may be explained through their religious and economic factors, while that of non-Muslim consumers could be explained through economic and ethical factors. However, the initial empirical finding reported in Muhamad et al. (2012) was somewhat limited to only the managerial perspective; hence, a further study investigating from the consumers’ point of view is needed to clarify: first, who are the IFSI consumers’ regardless of religious belief?; second, what are their underlying motives?; and third, how to design the communication strategies or tailor the brand messages to the right group?

This study focuses on the retail Islamic banking market in Malaysia for several reasons. Although the majority of the population is Muslim (60 per cent), Islamic banking products and services are also offered by the leading conventional banks in the country through their subsidiaries where the majority of their client bases are non-Muslims. Furthermore, in Malaysia, both types of consumer may buy the service regardless of their religious beliefs, whereas the non-Muslim consumers in some other countries are reluctant to accept or use the services (Mowali and Abdulsalam, 2012). Hence, the country’s uniqueness in terms of multi-ethnicity and multi-religious diversity provides an opportunity to learn how homogenous or similar the market can be. Malaysia’s aspiration to increase the share of its Islamic banking market to 40 per cent by 2020 requires it to properly strategise the promotion and selling of Islamic banking products and services. In addition, the country intends to make itself a global Islamic finance hub since it is a pioneer in this sector (Amin et al., 2011). The government provides support to the industry via its initiative and regulations (e.g. incentives are given to banks that offer Islamic banking products and services) (Amin et al., 2011). Hence, with such support, this will influence the market segmentation, and, thus, the industry needs to carefully analyse and understand the market segments to appropriately design the marketing and communication strategies for promoting its products. Likewise, shariah principles may potentially influence the market segmentation in developing countries (Hearn et al., 2012), such as Malaysia. This is because the purchase decision-making or shopping habits of the consumers of developing countries are heavily influenced not only by economic factors or rational brand attributes (e.g. pricing, quality or product performance) but also through their culture and/or religious values (Mokhlis, 2006; Rugimbana, 2007). Malaysia is a collectivist country with a multi-religious population, and place high importance on culture and value dimensions (e.g. religious, family) in terms of consumer purchase decisions in the financial sector (Rugimbana, 2007).

However, thus far, most previous research focuses on either describing what the IFSI is or comparing it to the conventional system of the west (Hearn et al., 2012), or the patronage behaviour of IFS (see for instance Kaynak and Harcar, 2005; Lee and Marlowe, 2003; Devlin, 2002; Gerard and Cunningham, 2001). Thus, understanding the
market segmentation in the Southeast Asia region would harness the marketers to target the right group, educate them further on IFS, and enable the delivery and tailoring of more meaningful messages (Rammal and Zurbruegg, 2007). Hence, the aim of this paper is to critically review and synthesise the literature on the market segmentation between CFS and IFS in the Southeast Asia region, particularly the Malaysian context. Two main objectives follow the above research questions: The study analyses how the current research on the IFSI attempts to classify its consumers and provide a fresh and critical insight into the retail Islamic banking market segmentation to harness and enhance understanding, as well as provide a guideline for a better segmentation to bank marketers.

The remainder of this paper is organised as follows: Section 2 provides a brief discussion on the IFSI. The discussion on the market segmentation and consumers’ segmentation in the conventional market is presented in Section 3, followed by an overview of consumer segmentation for the Islamic banking market. The last section offers concluding remarks and study implications.

2. IFSI

The IFSI has become a global phenomenon as its existence can be witnessed in both Islamic and western countries. It has grown rapidly over the past decade, and its banking segment has become increasingly important in a dozen countries in a wide range of regions (Kammer et al., 2015). It has been well accepted globally as an alternative to conventional finance. More importantly, it has opened up an opportunity to those who are currently unbanked or not inclined to use other financial products among the Muslim population, thus improving financial inclusion. The growth of IFSI is further fuelled by the large savings accumulated by many oil-exporting countries that are seeking to invest in shariah-compliant financial products (Kammer et al., 2015).

Kammer et al. (2015) suggest that the IFSI has the potential to contribute in at least three dimensions. First, in fostering greater financial inclusion, especially of the large underserved Muslim population. Second, emphasis on asset-backed financing and the risk-sharing features means that it could provide support for small- and medium-sized enterprises, as well as investment in the public infrastructure. Finally, the risk-sharing features and prohibition of speculation suggest that, in principle, Islamic finance may pose less systemic risk than conventional finance.

There are more than 600 Islamic financial institutions in more than 70 countries including the non-Organisation of Islamic Cooperation members, such as the UK, Luxembourg, Mauritius and Singapore (Grewal et al., 2015). Its product offerings include shariah-compliant capital markets (equities and sukuk or Islamic bonds), asset and fund management, as well as takaful (Islamic insurance) services catering to the varying needs of both retail and corporate consumers. The global Islamic financial assets by product offering are presented in Figure 1.

Despite a sharp contraction in the growth rates of aggregate global financial assets brought about by the financial crisis of 2007-2008, the IFSI grew at an estimated CAGR of 20 per cent per annum between 2007 and 2013 (Grewal et al., 2015). Generally, the Islamic finance assets are heavily concentrated in the Middle East and Asia (IFSB, 2015). The Islamic banking sector, which represents approximately 80 per cent of the total Islamic financial assets, has been a major driver of this growth (Grewal et al., 2015).
The strong growth of Islamic finance in Asia, according to Grewal et al. (2015), has been exemplified by the emergence of large Islamic banks and the issuance of sukuk. **Sukuk** is a capital raising instrument that provides undivided ownership over underlying assets. The growth is led by Bangladesh, Brunei Darussalam, Indonesia, Malaysia and Pakistan. As at the end of 2013, Islamic banking and **sukuk** in Asia represented 49 and 45 per cent, respectively, of the global Islamic finance assets.

Islamic finance in Malaysia began in 1969 with the establishment of an Islamic savings institution known as the Pilgrims Management and Fund Board (Lembaga Tabung Haji). The first full-fledged Islamic bank was established in 1983 with the enactment of the Islamic Banking Act 1983. To further boost the growth of the industry, Islamic “windows” were introduced in 1993, allowing conventional financial institutions to offer **shariah**-compliant banking products and services. Malaysia practices a dual-financial system, in which Islamic finance operates alongside the conventional financial system. The launch of the Islamic interbank money market in 1994 allowed the Islamic banking industry to continue to flourish. **Takaful** companies were subsequently incorporated under the Takaful Act 1984. Other important milestones in the evolution of Malaysia’s **IFS** include the issuance of **sukuk** by a foreign-owned company (Shell MDS) in 1990, the entrance of the first foreign Islamic bank from the Middle East (Kuwait Finance House Malaysia) in 2005, and the establishment of the first Islamic banking subsidiary (HSBC Amanah Malaysia) of a locally incorporated foreign bank in 2008. The Islamic Financial Services Act (IFSA) (2013) came into effect in 2014. The Act provides a legal foundation for the Islamic banking system to shift towards a regulatory framework that reflects the specificities of the various types of **shariah** contract. After more than three decades, the industry now comprises a critical mass of international and domestic financial institutions and a diverse range of innovative products and services.

What makes an economy “Islamic” is **shariah** (El-Sheikh, 2008, p. 116). **Shariah**, or **shariah** law, is the Islamic legal system that comprises the rules/legal decisions (**ahkam**) that are ordained by Allah for His servants through His Messenger. **Shariah** literally means “a course to the watering place”, “a resort of drinkers” or “the clear straight path” (Zaidan, 1999). The primary sources of **shariah** are the **Quran** (revelation from Allah) and the **Hadith** (the deeds, sayings or tacit approvals of the Prophet Muhammad). The secondary source of **shariah** is jurisprudence, which is in the form of **ijtihad**, **ijma’** and **qiyas** by the Muslim scholars (Muhamad, 2006).

Therefore, IFS are financial products (banking, non-bank financial services, insurance and capital markets) that are designed in compliance with **shariah** law. The basic principles in designing IFS are prohibition of interest; risk sharing; individual rights and duties; property rights; money as potential capital; prohibition of speculative behaviour; sanctity of contracts; **shariah** approved activities; and transparency of

---

### Figure 1.
Global Islamic financial assets by product offering

<table>
<thead>
<tr>
<th>Global Islamic Financial Assets as at 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking assets</strong></td>
</tr>
<tr>
<td>15.77%</td>
</tr>
</tbody>
</table>

Source: IFSB (2015)
information, which, therefore, reduce the risk of asymmetric information and moral hazard (Grewal et al., 2015; IFSB et al., 2010; Aslam, 2006; Zaher and Hassan, 2001; Loqman, 1999; Iqbal, 1997).

In order to gauge the potential of the IFS, it is important to understand the trend of population growth, not only among the Muslim population but also among the other relevant non-Muslim consumers. This is because Muslims form the largest religious group that adhere to the *shariah* laws for the usage of IFS that cater for their financing needs in trading, consumer purchase and working capital/business financing.

3. Literature review

3.1 Market segmentation, brand positioning and CFSI

Market segmentation and competitive positioning are two important areas of brand differentiation and vital concepts to ensure consumer satisfaction and brand loyalty (Hooley et al., 2004). While competitive positioning concerns how consumers perceive the alternative offerings on the market and how they compare with each other, market segmentation is how marketers divide the market into groups of similar consumers but where there are important differences between the groups (Hooley et al., 2004, p. 206). However, both concepts are vital and rely on each other to ensure consumer satisfaction and brand loyalty (Hooley et al., 2004). In other words, consumer needs and wants are met through the process of market segmentation and positioning. With the correct identification of the target groups, this will then aid a company to position and differentiate itself and its product/brand offering in the market.

In general, consumer segmentation by banks is still largely limited to categories of corporate and retail consumers as traditionally defined (Machauer and Morgner, 2001). Corporate consumers are distinguished by their geographic range of activities (regional vs international) or by their sector affiliation. In personal retail banking, externally observed demographic or economic criteria, such as profession, age, income or wealth are often the preferred dimensions for segmentation (Machauer and Morgner, 2001; Harrison, 1994; Meidan, 1984).

The review of the extant literature on the segmentation bases in CFSI reveals that two main approaches are used, namely, the “*a priori*” approach and the *post-hoc* approach. In the “*a priori*” approach, the segmentation of consumers is based on demographic criteria, which is also known as the uni-dimensional approach (Machauer and Morgner, 2001; Meadows and Dibb, 1998; Harrison, 1994). Examples of this approach are indicated in studies, such as Ronald et al. (1976); Lizar and Adrian (2000), as indicated in Table I below. While in the “*post-hoc*” approach, the segmentation of consumers is based upon the benefit-sought from products, attitudes, lifestyles and values (e.g. see Machauer and Morgner, 2001; Harrison, 1994; McDougal and Levesque, 1994; Burnett and Chonko, 1984; Haley, 1968). Scholars and marketers have also further explored the underlying purchase motives of individual consumers to guide them to a better understanding of the market they serve and lead them to a more effective segmentation and brand positioning in the CFSI by looking at the underlying purchase motives of individual retail consumers. Such motives include: first, convenience factors, such as location and service quality (see for instance Wel and Nor, 2003; Lee and Marlowe, 2003; Kaynak and Whiteley, 1999); second, reputation (Almossawi, 2001; Kennington et al., 1996); third, profitability factors, such as low service charges and high interest rates (Kaynak and Harcar, 2005; Devlin, 2002; Ta and Har, 2000; Owusu-Frimpong, 1999); fourth, fast and efficient service (Kaynak and Harcar, 2005); fifth, security (Gerard and Cunningham, 2001); and sixth, professional advice (Devlin, 2002).
<table>
<thead>
<tr>
<th>Source</th>
<th>Context</th>
<th>Segmentation approach</th>
<th>Findings and results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ronald <em>et al.</em> (1976)</td>
<td>A priori</td>
<td>Demographic segmentation based on investment strategies, trading patterns, portfolio composition and investor attitude</td>
<td>Five groups were identified categorised as retired male; old but still employed; younger professional men; female (past retirement age, few actively employed); and unmarried professionals</td>
</tr>
<tr>
<td>Burnett and Chonko (1984)</td>
<td>Post-hoc</td>
<td>Benefit segmentation based on consumers’ responses towards the product features and usage</td>
<td>Four consumer segments were identified labelled as traditional group; convenience group; investment group; and debt group</td>
</tr>
<tr>
<td>Haley (1968)</td>
<td></td>
<td>Benefit segmentation based on desired or expected utility from consuming a product</td>
<td>Types of benefit segmentation identified are: the status seeker; the swinger; the conservative; the rationale man; the inner directed man; and the hedonist</td>
</tr>
<tr>
<td>Harrison (1994)</td>
<td>Post-hoc</td>
<td>Psychographic segmentation based on perceived knowledge and understanding of financial services; perceived confidence and ability to deal with financial matters; expressed level of interest (involvement) in financial interest</td>
<td>Four consumer segments were identified known as: financially confused – low level of perceived knowledge and financial maturity; apathetic minimalist – fairly low level of perceived knowledge of financial services but high level of financial maturity is exhibited; cautious investors – very good knowledge of financial services but exhibit only a moderate degree of financial maturity; and capital accumulators – high level of perceived knowledge and understanding of financial services and a high degree of financial maturity</td>
</tr>
<tr>
<td>McDougall and Levesque (1994)</td>
<td>Post-hoc</td>
<td>Benefit segmentation based on service quality</td>
<td>Performance segment consumers – bank performs services right the first time; and convenience segment consumers – convenience of opening hours, convenient branch locations and existence of automated teller machines</td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>Source</th>
<th>Context</th>
<th>Segmentation approach</th>
<th>Findings and results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lizar and Adrian (2000)</td>
<td>A priori</td>
<td>Demographic segmentation based on gender, age, income, occupation and marital status and benefit segmentation based on convenience, technology, security, tangibility, products and promotional incentives</td>
<td>Cluster 1 – relationships: high degree of importance on the security of their banking relationship. Based on knowledge of the bank’s employees or recommendation by close friend; cluster 2 – cost sensitive: highest need for promotional incentives and also consider aspects of convenience and ATM technology to be important; and cluster 3 – service focused: highest degree of importance on the core and augmented service offering. Less concerned with technology, personal recommendation, cost and promotional incentives</td>
</tr>
<tr>
<td>Machauer and Morgner (2001)</td>
<td>Retail banking</td>
<td>Benefit segmentation based on attitudinal dimension, namely, information; settlement; conditions; service range; individual service; security; technology</td>
<td>Four segments were identified known as technology opposed – weak technology attitude and strong individual service attitude; service oriented – strong service range attitude and weak technology and online attitude; transaction oriented – strong technology attitude and weak information attitude; and generally interested – positive technology and online attitude and stronger information attitude</td>
</tr>
</tbody>
</table>
Thus, based on the underlying motives, marketers will then group the consumers into several segments based on demographic (a priori), psychographic and behavioural segmentation (post-hoc). The tendency for using the “a priori” or uni-dimensional approach is proposed based on the following two assumptions: first, consumers’ needs and wants are determined by the external consumer characteristics (such as demographic, social status, family life stage), which, in turn, will influence their decision-making (i.e. to opt for a particular financial service); and second, the segmentation would be appropriately used consistently across all products in the financial services industry (Meadows and Dibb, 1998). These assumptions lead to the standardisation of marketing strategies in the financial services industry (Muhamad et al., 2012; Machauer and Morgner, 2001; Harrison, 1994). However, the “a priori” or uni-dimensional approach is heavily criticised as being a poor indicator (Hooley et al., 2004) as the use of a single indicator does not fully address the specific needs and wants of consumers (Machauer and Morgner, 2001); consumers exhibit different personalities, values and lifestyle even in the same category or demographic criteria (Kotler et al., 2009; Meadows and Dibb, 1998); and the profitable segment may be ignored or missed (Muhamad et al., 2012; Harrison, 1994).

Although segmentation in the CFSI provides a useful way for financial service providers to develop their segmentation strategy, they may not all be relevant when segmenting the consumers in the IFSI (Muhamad et al., 2012) since the markets are far from being homogenous – consumer attitudes, regulations and profitability vary significantly across markets (Nazim et al., 2013). In the CFSI, the relationship between consumers and the bank is always “lender-borrower”, but, in the IFSI, the consumer-bank relationship varies depending on the shariah contract used to structure the product (e.g. seller-buyer; partners and trustor-trustee). Historically, the emergence of institutions offering IFS in the financial market was propelled by the long-impending necessity of helping the members of the Muslim Ummah, who aspire and strive to refrain from indulging in interest (riba) while carrying out financial and business transactions (Muhamad et al., 2009). Some of the above approach/segmentation bases may overlap with the CFSI but there are some notable differences that will be discussed in the next section.

3.2 Market segmentation, brand positioning and IFSI

Despite the IFSI being described as the fastest-growing sector worldwide and being seen as the best solution for the current global crisis (Maverecon, 2009; Quinn, 2008), thus far, previous research either focuses on describing what the IFSI is or compares it to the conventional system of the west (Hearn et al., 2012), or describes the selection criteria and patronage behaviour to IFS (see for instance Echchabi and Olaniyi, 2012; Estiri et al., 2011; Amin et al., 2011; Rashid and Hassan, 2009; Dusuki and Abdullah, 2007; Zainuddin et al., 2004; Ahmad and Haron, 2002; Gerrard and Cunningham, 1997; Haron et al., 1994), as indicated in Table II.

Some of the consumer patronage behaviour reasons or bank selection criteria have been described as:

(1) religious beliefs (Mowali and Abdulsalam, 2012; Rashid and Hassan, 2009; Gait and Worthington, 2008; Bley and Kuehn, 2004; Metawa and Almossawi, 1998);

(2) convenience factors associated with the quality of the service and the delivery, such as location, parking spaces, ATM machines access, cost benefit/interest rates and technology (Echchabi and Olaniyi, 2012; Estiri et al., 2011; Dusuki and Abdullah, 2007; Gerrard and Cunningham, 1997; Haron et al., 1994);
<table>
<thead>
<tr>
<th>Source</th>
<th>Article classification/ market/context</th>
<th>Study objective</th>
<th>Type of consumer</th>
<th>Results</th>
</tr>
</thead>
</table>
| Haron *et al.* (1994)     | Empirical (Malaysia)                   | Bank patronage factors/ bank selection criteria                                 | Muslim and non-Muslim consumers | Muslim: religion is the main factor why they maintain using Islamic banking
Both Muslims and non-Muslims: expect their banking transactions to be completed as quickly as possible, inefficiency indicators such as long queues in the banking hall, temporary shut-downs in ATM service, and operational counters during banking hours, unattended enquiries and delays in making decisions were unacceptable. Both of the groups favour fast and efficient services, speed of transactions, friendliness of bank personnel and confidentiality of bank

| Gerrard and Cunningham (1997) | Singapore                              | Level of awareness, culture of Islamic banking, the attitude of Singaporeans towards Islamic banking and bank selection criteria | Muslim and non-Muslim consumers | Other than religious factor among Muslim consumers which is important for bank selection criteria, both Muslim and non-Muslim consumers consider the following attributes to be important when considering and buying Islamic banking service: ambience/third party influences and borrowing factors. However, Muslim places high importance on convenient on borrowing with a bank while the non-Muslim emphasise on the profit/returns or interest during borrowing or deposits. |

| Mettawa and Almossawi (1998) | Empirical (Bahrain)                    | Bank patronage factors/ bank selection criteria                                 | Unclear religious status       | Purchase is determined by: religious factor, rates of return (that adheres to Islamic principles), convenient location, reference from family and friends
Important selection criteria are: bank’s reputation, availability of parking space near the bank, friendliness of bank personnels and those related to ATMs, such as their availability in several convenient locations and 24-hours availability of ATM service |

<table>
<thead>
<tr>
<th>Source</th>
<th>Article classification/market/context</th>
<th>Study objective</th>
<th>Type of consumer</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bley and Kuehn (2004)</td>
<td>Empirical/United Arab Emirates</td>
<td>Bank patronage factors/bank selection criteria</td>
<td>Unclear religious status (Arab and non-Arab are indicated)</td>
<td>Muslim preferred Islamic banking services because of religious motivations. A secondary finding was that while Arabic Muslims displayed a high level of knowledge of Islamic financial terms and concepts, non-Arabic Muslims students had a higher level of knowledge of conventional banking.</td>
</tr>
<tr>
<td>Gait and Worthington (2008)</td>
<td>Conceptual paper (all markets)</td>
<td>To review the attitudes, perceptions and knowledge of Islamic financial products and services</td>
<td>na</td>
<td>Religious conviction is a key factor in the use of IFS; consumers also identify bank reputation, service quality and pricing as being of relevance.</td>
</tr>
<tr>
<td>Rashid and Hassan (2009)</td>
<td>Empirical (Bangladesh)</td>
<td>Bank selection criteria preference and market segmentation</td>
<td>Unclear religious status</td>
<td>Using demographic (prior) as target segment: 1. Bank’s efficiency was found as the most important for the selection criteria across consumer demographics (e.g. fast and efficiency counter services, speed and efficacy of transaction process, interior setup of the branch, experienced management team); 2. Availability of the core services (among female and married group only), e.g. uniformity of services in all branches, competitiveness of product offering and 3. Compliance with shariah (for age 40+ only).</td>
</tr>
<tr>
<td>Dusuki and Abdullah (2007)</td>
<td>Empirical (Malaysia)</td>
<td>Bank patronage factors/bank selection criteria</td>
<td>Muslim and non-Muslim consumers</td>
<td>Religious factor and service quality are the important selection criteria such as treating customers with courtesy and respect; staff ability to convey trust and confidence; efficiency and effectiveness in handling any transaction; and knowledgeable and preparedness in providing solutions and answers concerning Islamic banking products and services.</td>
</tr>
<tr>
<td>Source</td>
<td>Article classification/ market/context</td>
<td>Study objective</td>
<td>Type of consumer</td>
<td>Results</td>
</tr>
<tr>
<td>--------</td>
<td>----------------------------------------</td>
<td>-----------------</td>
<td>------------------</td>
<td>---------</td>
</tr>
<tr>
<td>Rammal and Zurbruegg (2007)</td>
<td>Empirical (Australia)</td>
<td>Investigate intention of purchasing IFS among Muslims in Australia</td>
<td>Muslim consumers</td>
<td>Purchasing IFS depends on well-known service, ATM access, phone banking</td>
</tr>
<tr>
<td>Muhamad et al. (2009)</td>
<td>Conceptual paper</td>
<td>IFS segmentation</td>
<td>Muslim consumers</td>
<td>Purchasing IFS depends on well-known service, ATM access, phone banking</td>
</tr>
<tr>
<td>Estiri et al. (2011)</td>
<td>Empirical (Iran)</td>
<td>Bank patronage factors/bank selection criteria (for consumers’ satisfaction and loyalty)</td>
<td>Unclear religious status</td>
<td>Components related to service delivery and perceived quality for example empathy, assurance, reliability, product portfolio, convenience, service cost and bank reputation</td>
</tr>
<tr>
<td>Amin et al. (2011)</td>
<td>Empirical (Malaysia)</td>
<td>To investigate the effect of social influence, religious obligation, government support and pricing in intention using Islamic personal financing</td>
<td>Muslim and non-Muslim consumers</td>
<td>Attitude and pricing – significant but insignificant found on religious obligation and government support</td>
</tr>
<tr>
<td>Echchabi and Olaniyi (2012)</td>
<td>Empirical (Malaysia)</td>
<td>Bank patronage factors/bank selection criteria (for consumer satisfaction and loyalty)</td>
<td>Muslim consumers</td>
<td>Services quality, convenience, personnel friendliness, personnel competence, knowledge and professional advice</td>
</tr>
<tr>
<td>Muhamad et al. (2012)</td>
<td>Empirical (all market/managerial perspective)</td>
<td>IFS segmentation</td>
<td>Muslim and non-Muslim consumers</td>
<td>From managerial perspective, four segments found (1) Religious conviction; (2) Religious conviction and economic rationality; (3) Ethical observance; and, (4) Economic rationality</td>
</tr>
<tr>
<td>Mowali and Abdulsalam (2012)</td>
<td>Conceptual paper (Nigeria)</td>
<td>Market segmentation</td>
<td>Muslim consumers</td>
<td>Segmentation for Muslim consumers in Nigeria is proposed using: identification, measurability, accessibility, substantiality, stability and growing, differentiation and actionable criterion</td>
</tr>
</tbody>
</table>
(3) well-known bank or brand reputation and image, ATM machines, parking spaces and other aspect of service quality and delivery (Rammal and Zurbruegg, 2007; Almossawi, 2001), as indicated in Table II.

Various researchers have focused on the individuals’ brand preference to bank selection factors for both Muslim and non-Muslim consumers (e.g. Amin et al., 2011; Dusuki and Abdullah, 2007; Gerrard and Cunningham, 1997; Haron et al., 1994). Another category of studies discusses bank selection criteria for individual consumers, without showing or giving emphasis to any explicit classification of consumers along the line of their religious status (see, e.g. Echchabi and Olaniyi, 2012; Almossawi, 2001; Mettawa and Almossawi, 1998). Consumers’ age, income, education, experience and other socio-demographic characteristics are found to have a significant impact on their buying decision (Mettawa and Almossawi, 1998). However, the majority of these studies mainly focus on almost similar objectives, the patronising behaviour among Muslim consumers, with most of the above scholars obtaining nearly similar research findings (as indicated from point number (1) to (3) above). They do not however, examine or explain the segmentation basis within this particular market (Muhamad et al., 2012), neither do they understand it from the non-Muslim consumer perspective (Muhamad et al., 2012; Gait and Worthington, 2008). The heavy reliance of research in the past on Muslim consumers was because of not only the newness of this area but also the urgency to understand their (Muslim consumers) underlying purchase motives, as they were categorised as “unbanked” Muslim consumers, in that they were reluctant to use or refrained from using conventional banks (Rammal and Zurbruegg, 2007, p. 72). Hence, the Islamic bank marketers in the past tried to understand these types of consumer and what made them opt for Islamic banking product and services through the study of bank selection criteria or banking behaviour among Muslim consumers in the hope of encouraging them to opt for Islamic banking product and services (Kammer et al., 2015).

The earlier attempt to segment IFS consumers by Muhamad et al. (2009) is based on how people have been segmented in theoretical-historical planes in the Islamic tradition. A threefold categorisation of human personality based on the state of the soul can be found in the Qur’an. In developmental order, the first kind of personality is called ammarah, which denotes a person who is coarse and crude, thoughtless and ill-mannered (Khan, 2004). This, in fact, is the state of the soul in which irrationality or beastiality overpowers the rational or angelic element, and so it is prone to evil, and, if not checked and controlled, leads to perdition (Ali, 1992). When a person is a little more evolved and developed there is a certain consideration, a civilised manner, a refinement and a choice of action. This second kind of personality is called lawwamah (Khan, 2004). In this state of the soul, the rational element encourages a person to perform good deeds in the best possible manner; however, such a state appears to contain an irrational element in active opposition to the rational. Therefore, there is a continuous struggle between the rational element and the irrational element to overpower each other. Lawwamah feels conscious of evil, and tries to resist it, asks for God’s grace and pardon after repentance and tries to amend; it hopes to reach salvation (Ali, 1992). Mutmainnah typifies the next and the highest level of personality. The possessor of this state of soul is not only thoughtful but also sympathetic, not only considerate but also kind, not only civilised in manner but also polite by nature and not only refined but also tender-hearted (Khan, 2004). This stage is diametrically opposite to the first stage in the sense that here the irrational or bestial element of the soul is
completely subjugated to the rational or angelic element. In Muslim theology, this stage of the soul is the final stage of bliss where it is at rest, in peace, and in a state of complete satisfaction (Ali, 1992).

Taking cue from these classifications of people, three distinct consumer segments for IFS are identified, namely: first, religious conviction group, which is strongly guided by religious dictates; second, ethical observant group, which refers to a group of people that may not be particularly aware or careful of religious dictates but consciously tries to uphold moral values; and third, economic rationality group, which is indifferent to both religious and moral dictates, and is intent on deciding things solely from the perspective of personal financial gain (or economic rationalism).

Since the IFS distinctiveness depends on its offering of financial products/services that are compliant with the basic tenets of shariah, the religiosity of consumers is presumed to play a more important role in segmenting consumers. This is what the current approach to segmentation lacks, and, understandably, this absence has an adverse effect in promoting and marketing IFS. Just as it is not wise to put all consumers of all religions in one category, it is not correct to indiscriminately put all consumers of a particular religion in one category. Subscribing to a particular religion does not automatically mean that all subscribers will be equally conscious of the spiritual and moral dictates of the religion and be equally eager to follow all the instructions prescribed by that religion.

The question that arises then is how would marketers position and differentiate IFS brands other than by merely religious beliefs/motives, particularly to the non-Muslim group. While CFSI can be segmented from both approaches prior and post-hoc, it is still unclear whether both or an additional approach is applicable to explain the IFSI segmentation bases. However, Muhamad et al. (2012) have provided an initial understanding of this issue. In particular, through an initial exploratory study by Muhamad et al. (2012) four IFSI segments are found: religious conviction; religious conviction and economic rationality; ethical observance; and economic rationality. Although religious values overlap with economic rationality and this phenomenon is common in segmenting the market (Peter and Olson, 2008; Hooley et al., 2004), the ethical dimension and economic rationality are the major reasons for the non-Muslim consumers. Muhamad et al. (2012) conclude that segmentation through the post-hoc approach is most appropriate for IFSI, and that personality, values and lifestyle are vital because these elements are brand associations, and, thus, potentially, are more effective in enhancing the financial institution’s brand images (Muhamad et al., 2012, p. 904) in that a marketing manager may combine these approaches as appropriate for a given market and for a given product, and not consider the segmentation as being as rigid as it is. Institutions offering IFS may find this strategy useful to build up their competitiveness in light of their nascent existence. Institutions may develop a profile of a segment that might include aspects of any or a combination of segmentation approaches.

Taking this further, this study discusses and applies the four segment groups found in Muhamad et al. (2012) in the Malaysian context to enhance understanding and provide an appropriate profiling of Islamic banking consumers from both groups (Muslims and non-Muslims). As highlighted earlier, Malaysia provides a unique case for studying the Islamic banking market segmentation in that it not only offers multi-ethnic (e.g. Malay, Chinese and Indian as three main ethnic groups) and multi-religious (with the main religions in the country being Islam (majority), Christian, Hinduism, Buddha and Confucius) diversity, but, also, it is the country’s aspiration to
increase the market share of its Islamic banking to 40 per cent by 2020, as well as the intention to make Malaysia an Islamic finance hub (Amin et al., 2011). Thus, the government provides support to the industry via its initiative and regulations (e.g. incentives are given to banks that offer shariah-compliant products), which, in turn, will influence the underlying motives from their consumers (Rosly, 2005). For example, from the introduced incentives, the leading conventional banks in the country through their subsidiaries, where the majority of their client bases are non-Muslims (or Chinese-owned based banks), are able to provide a lower cost of financing (e.g. stamp duty are waived for home financing products). In respect of the mobilisation of funds, the underlying motives of the consumers vary across jurisdictions (Nazim et al., 2013). For example, for consumers in Saudi Arabia, the main underlying motive for depositing money in Islamic banks is safe-keeping (returns may not necessarily be of interest or relevant), whereas, in Malaysia, regardless of the group, consumers somewhat expect some return/profit from their deposits (Muhamad et al., 2012). This example provides a unique case scenario, which, consequently, will influence how marketers design their branding and marketing communication and how a country governs the Islamic banking industry within the local market.

Hence, religious belief (or Islam) may not be the only reason why IFS consumers bought the services or explain their underlying purchase motives (Mowali and Abdulsalam, 2012; Rashid and Hassan, 2009; Dusuki and Abdullah, 2007; Ahmad and Haron, 2002). This, however, is not the case in other markets, such as Nigeria, IFSI received heavy criticism from the non-Muslim group as they considered the introduction of IFS to be imposing Islamic religion on their group and was also perceived to be a misuse of national resources (Mowali and Abdulsalam, 2012, p. 1). In addition, Pakistan, Sudan and Iran, for example, would have a very different market segmentation due to the existence of a single shariah-compliant financial system (Hearn et al., 2012). Thus, segmenting in IFSI is extremely challenging compared to CFSI because almost every market is different (Nazim et al., 2013) and these factors – government support, financial system structure of the country, the political movement, regulation and country climate – all influence the way we develop the market segmentation for this industry.

Therefore, satisfying Muslim consumers is not necessarily limited to their religious belief (i.e. religious conviction) but also the economic perspective (lower cost of financing, innovative banking features and service quality), which are represented by religious conviction and economic rationality (Muhamad et al., 2012); while satisfying the non-Muslim consumers could be explained through economic factors alone, or both economic and ethical factors. It was evident that the non-Muslim consumers are attracted to buy IFS due to the “ethical attributes” the service may have in line with the increasing concern for green and sustainable or ethical investment (Saidi, 2009; Ghoul and Karam, 2007). IFS is also an attractive alternative for those investors who, in their quest to diversify their portfolios, are looking for new asset classes, new instruments and new products with low correlation with their existing asset classes and products (Hussain, 2005). Likewise, Hearn et al. (2012) explain that the main difference between the Muslim and the non-Muslim consumers lies within the aspect of ethical belief, where, for the Muslims, ethical action through shariah is not voluntary, but, rather, is a knowledge derived from the teachings of the Quran (p. 103). Thus, ethical factors may be another segment group that marketers could target within the IFSI market.

Therefore, from the above literatures discussion, the study hence proposes five cluster groups for the Malaysia context as illustrated below.
Descriptions of each group above are as follows:

(1) Religious conviction group: religious influence only i.e. shariah-compliant products and services (among Muslim consumers only).

(2) Religious conviction and economic rationality group: both religious (shariah compliant) and economic factors (e.g. lower cost of financing/high returns, etc.) influence purchase decision (among Muslim consumers only).

(3) Economic rationality: economic factors influence only, such as lower cost of financing/high returns, services delivery, technology, bank reputation, etc. (for both groups – Muslim and non-Muslim consumers).

(4) Ethical observant group: ethical factors influence only such as do not charge excessive cost of financing, abusive commissions or ultra-profitable credit charges that go beyond reasonable standards and hence, taking an extra benefit from a specific situation in detriment to their customers; engaging in excessively speculative investments and irresponsible credit lending practices; actively involved in financing weapon-manufacturing companies and companies operating with no socially responsible agendas and potentially contribute towards ecological damages (among non-Muslim consumers only).

(5) Economic rationality and Ethical Observant group: both economic (e.g. lower cost of financing/high returns, etc.) and ethical factors (e.g. involved in speculative investments and irresponsible credit lending practices, etc.) influence purchase decision (among non-Muslim consumers only).

4. Discussion and implications
This study offers and enhances the understanding of the previous research findings on IFSI market segmentation by applying the four market propositions of Muhamad et al. (2012) in the context of Malaysian retail banking. Although several studies exist on the IFSI within the Malaysian market (Echchabi and Olaniyi, 2012; Amin et al., 2011), these studies focus on: first, patronising behaviour research in Islamic banks; second, Islamic bank brand preferences; or third, Bank selection criteria, rather than market segmentation for individual retail consumers. In general, market segmentation research in the IFSI is still scarce (Muhamad et al., 2012), and previous research mainly focuses on describing what the IFSI is and comparing it to the conventional system (Hearn et al., 2012), and most of the patronising behaviour research is limited to only Muslim consumers (e.g. see Mowali and Abdulsalam, 2012; Rashid and Hassan, 2009; Dusuki and Abdullah, 2007; Zainuddin et al., 2004; Ahmad and Haron, 2002; Gerrard and Cunningham, 1997; Haron et al., 1994). Although there have been several attempts to understand the underlying motives from non-Muslim consumers, they are very limited (e.g. see Muhamad et al., 2012; Muhamad et al., 2011; Muhamad et al., 2009; Dusuki and Abdullah, 2007; Ahmad and Haron, 2002). Some other studies, however, combine both Muslims and non-Muslims (e.g. Gerrard and Cunningham, 1997; Zainuddin et al., 2004; Haron et al., 1994), and in the Malaysian context (e.g. see Echchabi and Olaniyi, 2012; Amin et al., 2011). Nevertheless, these studies combine both groups during their overall analysis (treating both groups as one), thus, undermining the interpretation or generalisation of the results (as then the exact motives for each group, similarity and their differences become unclear). Yet, as discussed earlier, both groups are vital consumers in the IFSI, particularly in the unique
context of Malaysia, where the non-Muslim group is also a major buyer of IFS unlike other countries (Mowali and Abdulsalam, 2012).

Hence, analysing the IFS market segmentation is a useful starting point in the strategy formulation of the marketing strategy for the retail banking consumers and aids in the creation of the bank’s competitive positioning (Hooley et al., 2004) and is a form of service brand differentiation (Kaynak and Harcar, 2005). By segmenting the market, it will provide valuable insights into consumer requirements (needs and wants) due to consumer behaviour differing in nature from one to another (Peter and Olson, 2008), and help to focus on specific market targets more effectively.

The study contributes to the present literature by describing the exact segments from among Muslim and Non-Muslim consumers based on the proposition made by Muhamad et al. (2012) within the Malaysian retail banking market. Although their study provides a useful initial starting point to the market segmentation, they have yet to apply these criteria to any specific market. Thus, we can conclude that five cluster groups are the most appropriate for market segmentation for retail banking market in Malaysia:

1. religious conviction group only;
2. religious conviction and economic rationality group;
3. economic rationality only;
4. economic rationality and ethical observance; and
5. ethical observance only.

The above five clusters are exhibited in Figure 2. In particular, when deciding for Islamic banking products and services, the Muslim group is thought to fall either within religious conviction group only or religious conviction and economic rationality group or economic rationality only, while the non-Muslim group can be broadly clustered as economic rationality only, economic rationality and ethical observance or ethical observance only. Therefore, for the economic rationality only, both Muslim and non-Muslim consumers may potentially belong to this cluster group. It is worth noting that, for the Muslim consumers, the ethical dimension is embedded within the religious group. Normatively, complying with the shariah law, effectively means consumers are also ethical, as shariah very much emphasises on fair dealings, thus, explaining the

![Figure 2. Proposed cluster groups for the Malaysia Islamic banking market](image-url)
Muslim group. Likewise, Amin et al. (2011) suggest that improving consumer attitudes towards Islamic banking, promotion of equity and justice in the practice of Islamic financing transaction is vital through “fair bank consumer treatment policy” and “fair pricing policy” (p. 38). Thus, understanding the cultural factors in the retail banking consumers’ perspective is important from the marketer’s point of view. Additionally, according to Ralston et al. (1997), religion, education, norms, customs and history are essential components of the culture of a society. Moreover, Delener (1994) and Muhamad et al. (2012) clearly point out that religious belief does affect consumer purchase decision making in their empirical research findings. Rugimbana (2007) (in their study on e-banking services) discovers that the cultural values provide a useful basis for segmentation, especially for the financial services providers.

Furthermore, “ethical consumerism” is on the rise (Ismail and Panni, 2008; Auger et al., 2003) and it is established that the evaluation criteria for ethical investment overlaps with the ideals of Islamic banking and finance (see, e.g. Saidi, 2009; Ghoul and Karam, 2007; Rice, 1999; Wilson, 1997). Thus, segmentation based on ethical values is also important in explaining in particular, why non-Muslims are attracted to the Islamic banking products and services, as it is also in line with the global emerging trend of consumers (Ismail and Panni, 2008).

In summary, the objective of this study is to critically examine the initial segmentation based on the proposal made by Muhamad et al. (2012), to provide a strategic direction for marketers in the brand positioning of Islamic banking products and services. As indicated earlier, Muhamad et al. (2012) proposed four different market segments for IFS, this study extends this notion with five cluster groups within the Malaysian Islamic banking market. Theoretically, the identified groups appear to be consistent with the previous discussion on the post-hoc segmentation of CFS. The practical contribution of the study and its managerial implications can be seen in the context of defining the strategy and positioning of Islamic banking products and services. Depending on the targeted segment, consumers may associate Islamic banking products and services with the qualities or image of being religious (i.e. shariah compliant) “ethical” and value for money. Thus, Islamic banking products and services are bought by both groups (Muslims and non-Muslims) in Malaysia, with different underlying motives. Using this freshly proposed segmentation as the main bases, the marketers of Islamic banking products and services should thus position and design the right marketing messages for the right group of consumers.

Our research has several limitations. This study only offers conceptual insights, further studies need to be carried out on a larger scale among the retail banking consumers in order to empirically validate/verify the five cluster groups proposed above, as empirical research is not within the scope of the current study. Furthermore, a comparison of non-Muslim and Muslim groups in other markets that offer a dual banking financial system similar to Malaysia (such as in the west, North Africa and the Middle East) would be interesting and would enhance marketers’ knowledge in terms of developing a more effective basis for segmentation, and thus aid in the creation of their competitive positioning.

References


Peter, P.J. and Olson, J.C. (2008), *Consumer Behavior and Marketing Strategy*, Irwin, Boston, MA.


**Further reading**


**Corresponding author**

Dr Sharifah Alwi can be contacted at: Sharifah.Alwi@brunel.ac.uk

For instructions on how to order reprints of this article, please visit our website: [www.emeraldgrouppublishing.com/licensing/reprints.htm](http://www.emeraldgrouppublishing.com/licensing/reprints.htm)

Or contact us for further details: permissions@emeraldinsight.com